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Outsourcing

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What Is Outsourcing?

Outsourcing is the business practice of hiring a party outside a company to perform services and create goods that traditionally were performed in-house by the company's own employees and staff. Outsourcing is a practice usually undertaken by companies as a cost-cutting measure. As such, it can affect a wide range of jobs, ranging from customer support to manufacturing to the back office.

Outsourcing was first recognized as a business strategy in 1989 and became an integral part of business economics throughout the 1990s. The practice of outsourcing is subject to considerable controversy in many countries. **Those opposed argue that it has caused the loss of domestic jobs**, particularly in the manufacturing sector. **Supporters say it creates an incentive for businesses and companies to allocate resources where they are most effective**, and that outsourcing helps maintain the nature of free-market economies on a global scale.

KEY TAKEAWAYS

- Companies use outsourcing to cut labor costs, including salaries for its personnel, overhead, equipment, and technology.
- Outsourcing is also used by companies to dial down and focus on the core aspects of the business, spinning off the less critical operations to outside organizations.
- On the downside, communication between the company and outside providers can be hard, and security threats can amp up when multiple parties can access sensitive data.

Understanding Outsourcing

Outsourcing can help businesses reduce labor costs significantly. When a company uses outsourcing, it enlists the help of outside organizations not affiliated with the company to complete certain tasks. The outside organizations typically set up different compensation structures with their employees than the outsourcing company, enabling them to complete the work for less money.

Businesses can also avoid expenses associated with overhead, equipment, and technology.In addition to cost savings, companies can employ an outsourcing strategy to better focus on the core aspects of the business. Outsourcing non-core activities can improve efficiency and productivity because another entity performs these smaller tasks better than the firm itself. This strategy may also lead to faster turnaround times, increased competitiveness within an industry and the cutting of overall operational costs.

Companies use outsourcing to cut labor costs and business expenses, but also to enable them to focus on the core aspects of

Examples of Outsourcing

Outsourcing's biggest advantages are time and cost savings. A manufacturer of personal computers might buy internal components for its machines from other companies to save on production costs. A law firm might store and back up its files using a cloud-computing service provider, thus giving it access to digital technology without investing large amounts of money to actually own the technology.

A small company may decide to outsource bookkeeping duties to an accounting firm, as doing so may be cheaper than retaining an in-house accountant. Other companies find outsourcing the functions of human resource departments, such as payroll and health insurance, as beneficial. **When used properly, outsourcing is an effective strategy to reduce expenses, and can even provide a business with a competitive advantage over rivals.**

Criticism of Outsourcing

Outsourcing does have disadvantages. Signing contracts with other companies may take time and extra effort from a firm's legal team. Security threats occur if another party has access to a company's confidential information and then that party suffers a data breach. A lack of communication between the company and the outsourced provider may occur, which could delay the completion of projects.

Special Considerations

Outsourcing internationally can help companies benefit from the differences in labor and production costs among countries. Price dispersion in another country may entice a business to relocate some or all of its operations to the cheaper country in order to increase profitability and stay competitive within an industry. Many large corporations have eliminated their entire in-house customer service call centers, outsourcing that function to third-party outfits located in lower-cost locations.

What are the disadvantages of outsourcin

The disadvantages of outsourcing include communication difficulties, security threats where sensitive data is increasingly at stake, and additional legal duties. On a broader level, outsourcing may have the potential to disrupt a labor force. One example that often comes to mind is the manufacturing industry in America, where now a large extent of production has moved internationally. In turn, higher-skilled manufacturing jobs, such as robotics or precision machines, have emerged at a greater scale.

Taken from: https://www.investopedia.com/terms/o/outsourcing.asp

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